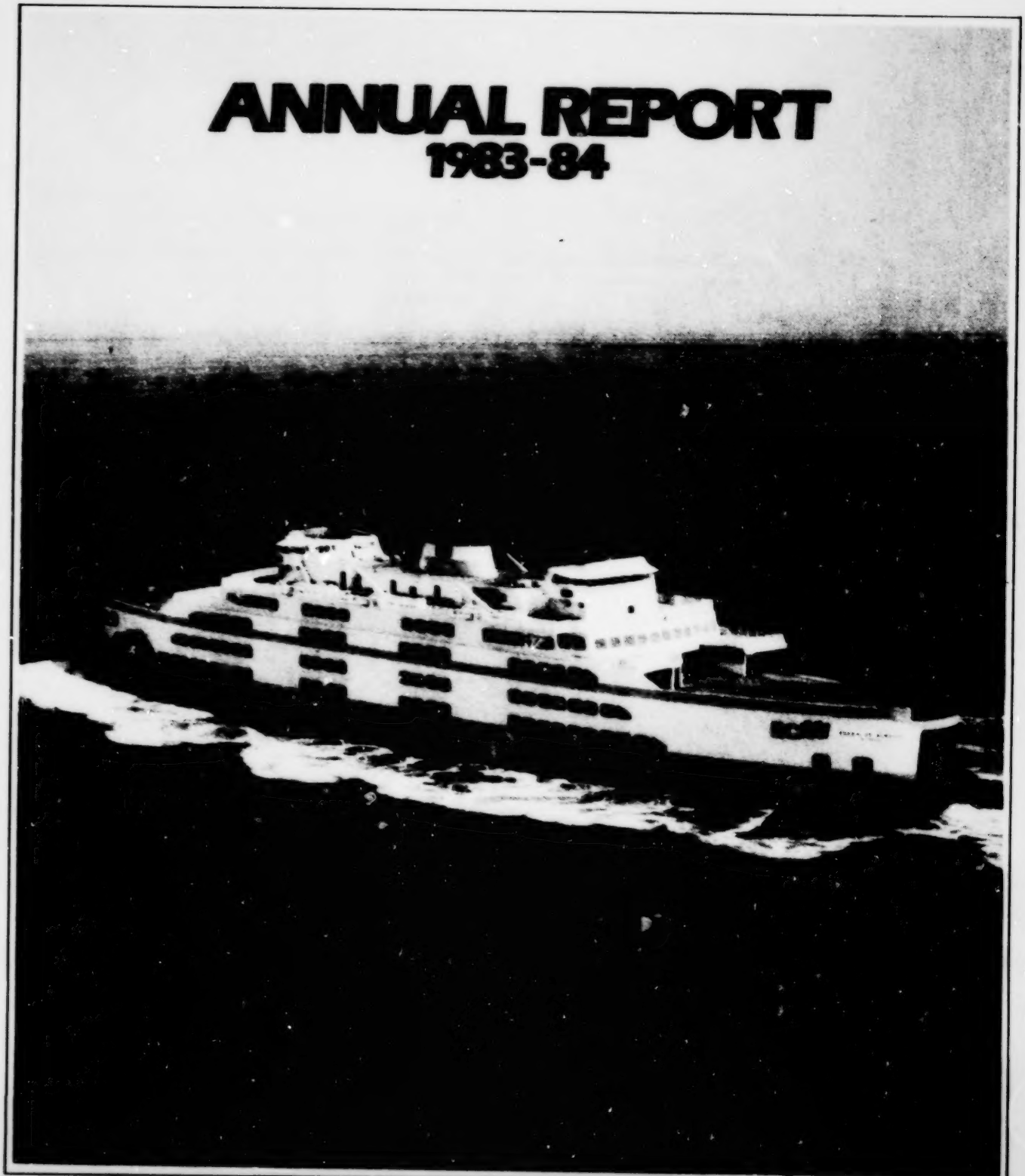
BC FERRIES

ANNUAL REPORT
1983-84

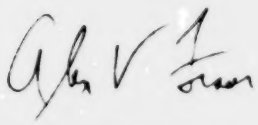


85-0625/

The Honourable
ROBERT G. ROGERS,
Lieutenant-Governor of the Province of
British Columbia.

MAY IT PLEASE YOUR HONOUR:

I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1984 in compliance with the provisions of the Ferry Corporation Act.



ALEX V. FRASER
Minister of Transportation and Highways

June 29, 1984

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COVER PHOTOGRAPH:
Lifting of the M.V. "Queen of Alberni" commenced in March, 1984 at the Burrard Yarrows shipyard in Victoria. Capacity has been increased from 150 vehicles and 750 passengers to 300 vehicles and 1200 passengers.

Highlights

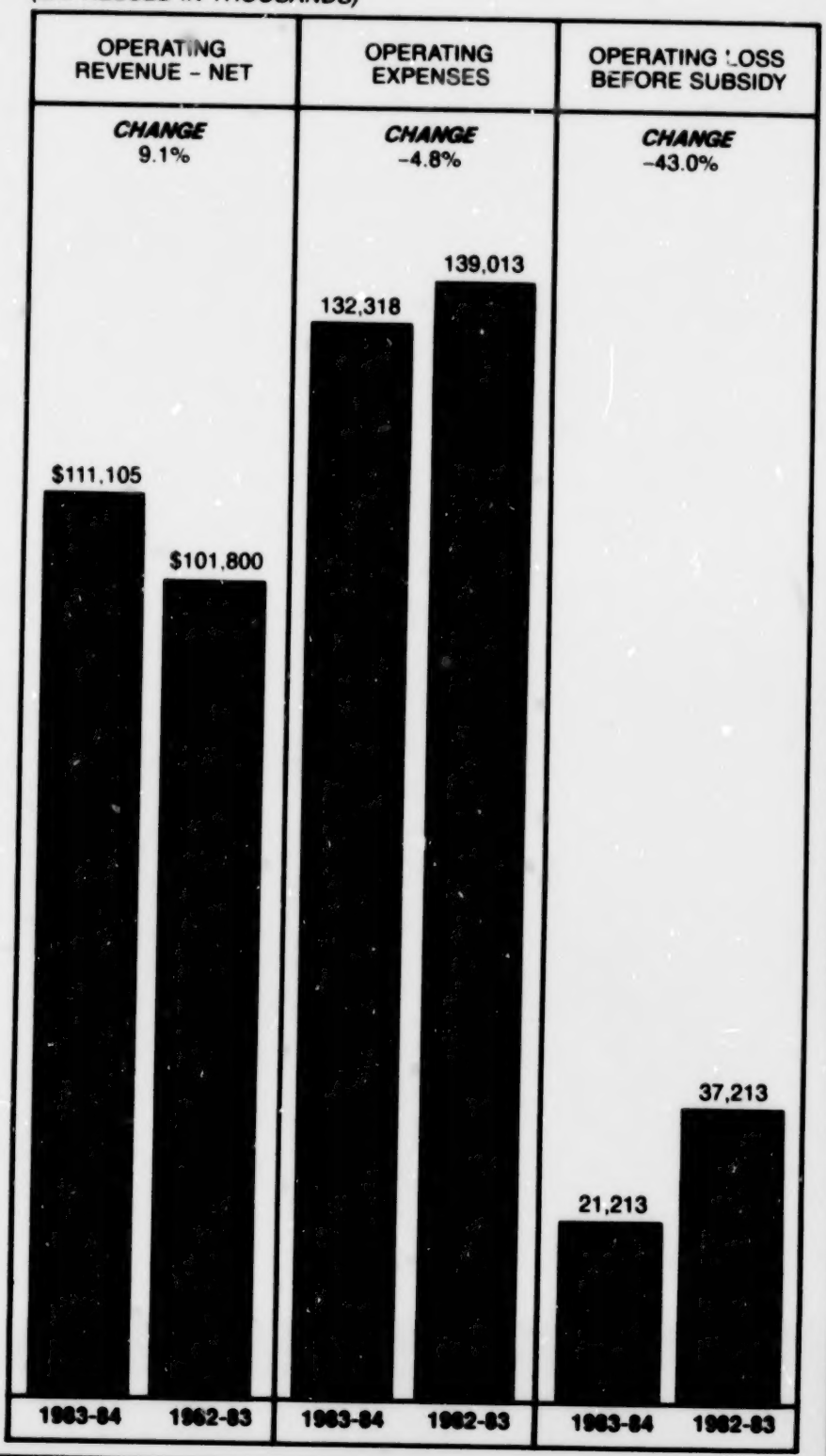
1. Essentially the year was one of stabilization in that while the decline in traffic and subsequent revenues ceased there were no significant signs of a return in traffic growth. As a result, traffic for the period was virtually equal to the 1981/1982 fiscal period.

2. The financial impact of the no-growth factor was, however, offset by:
   (a) further management efficiencies, particularly in labour and fleet utilization, which led to fewer sailings and reductions in fuel consumption;
   (b) the near freeze on capital expenditure; and
   (c) the impact of tariff increases on the high volume Routes 1 and 2.

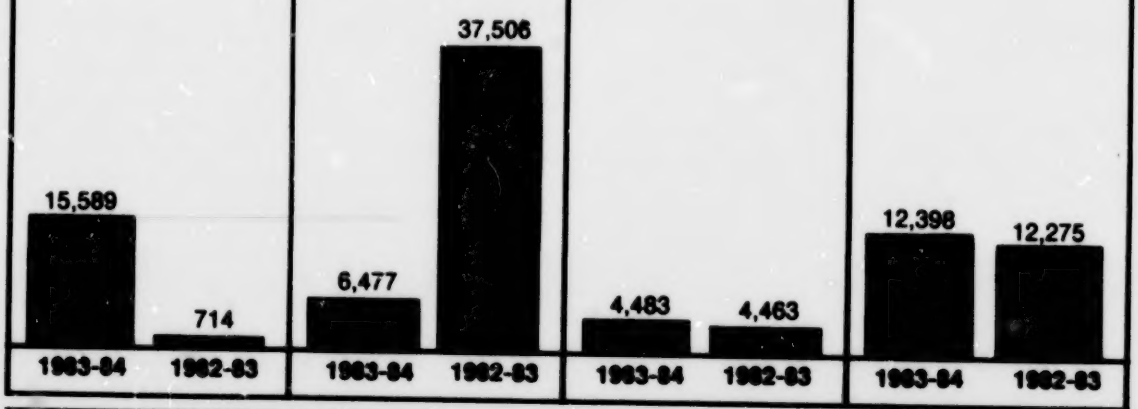
3. The three geographic regions – Gulf Islands, Sunshine Coast and North Coast, continue to exert the greatest pressures against earnings in spite of improved management efficiencies, with the result that the three regions counted for $30 million in deficit before depreciation.

4. The net result of the combination of efficiencies and higher tariff was a surplus of $16 million before depreciation.

(EXPRESSED IN THOUSANDS)



INCOME BEFORE DEPRECIATION	WORKING CAPITAL DEFICIENCY	TRAFFIC – VEHICLES	TRAFFIC – PASSENGERS
CHANGE N.A.	***CHANGE*** –82.7%	***CHANGE*** 0.4%	***CHANGE*** 1.0%



Board of Directors

DIRECTORS

MR. STUART HODGSON, (1)
Chairman & Chief Executive Officer,
British Columbia Ferry Corporation.

THE HONOURABLE ALEX V. FRASER,
Minister, Transportation & Highways,
Province of British Columbia.

MR. J.A. CLARKE, (2) (4)
Consultant. (Deceased May 18, 1984)

MR. W.A. DUNCAN, (2)
Retired.

DR. W.B.M. HICK, (1) (2)
Physician & Surgeon.

MR. A.L. MICHAUD, (1) (4)
President,
Michaud Investments.

MR. J.K. SORKO, (3) (4)
Retired

MR. R.H. WRIGHT, (1) (3)
President,
Oak Bay Marina Ltd.

MR. M.D.W. YOUNG, (3)
Barrister & Solicitor.

(1) Member - Executive Committee
(2) Member - Finance Committee
(3) Member - Planning Committee
(4) Member - Audit Committee

OFFICERS

MR. STUART HODGSON, (1)
Chief Executive Officer.

MR. G. BALDWIN, (1)
General Manager.

MR. J.J. ESTOCK, (1)
Assistant General Manager,
Finance and Administration.

MR. A.S. LUKINUK, (1)
Corporate Secretary.

MR. K. BAGSHAW,
Corporate Counsel.

Report of the Chairman

The Honourable Alex V. Fraser
Minister of Transportation & Highways

1983-84 has been primarily a year of stabilization coming out of the previous year (1982/83) which saw dramatic declines in passengers of half a million and vehicles of a quarter of a million and its subsequent impact on revenue along with major increases in labour and fuel costs. The stabilization to which I refer has been in evidence in all operational spheres. Examples include the placing in reserve of some five to seven ships, utilizing only the most cost-efficient vessels to maintain required services and reduce the operating costs.

As the logical extension of the strong measures that were undertaken in the 1982/83 period, the consolidation beginning early in 1983/84 appears to have been the right approach at the right time since, as anticipated, 1983/84 was a no-growth year in terms of traffic. The moves which were undertaken placed the Corporation in the best position to gain maximum efficiency from existing human and physical resources carefully matching the capacity of the fleet to the demands of the traffic load and well-positioned to take full advantage of the modest increases in tariff approved by the Government at the end of 1983.

As mentioned, traffic showed no increase with the result that 1983/84 traffic was almost identical to 1982/83. Some optimism for the coming year may be drawn, however, from the apparent cessation in traffic decline of the last two years and it is hoped that we shall enjoy some modest increases in most classifications of traffic reflecting the increased provincial economy in the recovery period. During fiscal 1983/84 the Corporation experienced traffic growth of less than 1% in both vehicles and passengers; specifically, 4,482,707 vehicles up slightly from the 1982 figure of 4,462,731 and 12,397,905 passengers up slightly from the 1982 figure of 12,275,466.

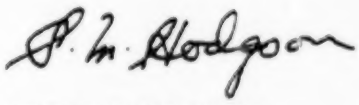
Turning to cost-efficiencies, the October 1983 3-year Collective Agreement represented a most progressive step in the interests of both Union and management. Under the agreement, the Corporation was in a position to realise a more efficient utilization of manpower with an extended basic workday up from 7.5 hours to 8 hours for certain classifications within the bargaining unit, and the taking of overtime as time off in the winter season only. This agreement permitted the Union (BCF&MWU) salary increases in the second and third years of 4% and 4% and the benchmark arrangement which saw the Union nominating a new member of the Board of Directors. In addition the contract provided new advances in job security for Union members and a specified process for layoff.

The full utilization of the 360-vehicle C class vessels ensured the best match between the capacity of the fleet and the traffic demand since the beginning of the Corporation. Overloads were reduced on the major routes (Vancouver Island/Mainland) and occurred almost exclusively at peak times only on the smaller, more rural routes, including those in the Sunshine Coast and the Gulf Islands. This programme of fleet utilization also ensured the most efficient expenditure of fuel resulting in a further reduction in the total amount of fuel consumed.

Reflecting the Government's commitment to appreciably pare costs in all public services, the Board of Directors of the Corporation created in November a committee with the mandate to secure reductions in deficits which amounted to $43 million in 1982/83. Since almost all of these losses occurred in the three geographic regions of the Sunshine Coast, North Coast and Gulf Islands, the Committee has focused its attentions on the ships, schedules and services of these regions. It is anticipated that their recommendations will be finalized in the next fiscal year and that the implementation of the report will result in reductions in these loss areas.

In reviewing the overall performance of the fleet it is interesting to note that the ratio of passengers carried in 1983/84 compared with the numbers of staff, ships and consumption of fuel to meet that demand represented major gains in efficiencies and productivity over previous years.
In the coming year the Corporation will further consolidate the gains made in 1983/84 in efficiencies in all operating areas.

On behalf of the Board



STUART M. HODGSON
Chairman of the Board
and Chief Executive Officer

General Manager's Report

In the previous year of 1982 the Corporation had reached a plateau in its five-year programme of capital expansion of ships and terminals giving the fleet major improvements in lift-capacity to take it through the 1980's. In addressing the continuing impact of recessionary forces on the Corporation the thrust in 1983/84 was redirected from the previous few years' campaign of capacity expansion and modernization to one of increases in day-to-day efficiency and greater productivity.

This was achieved through a department by department analysis leading to a consolidation of the gains which were initiated in 1982 and brought to fruition in 1983. The measurable results saw the same volume of traffic carried as in the previous year but with fewer ships, fewer sailings and considerably less fuel.

As evidence of a co-operative spirit between labour and management no work stoppages occurred in 1983 and October saw the signing of a landmark 3-year labour agreement which provided administration with greater flexibility in scheduling ships to meet the public needs.

OPERATIONS

Reflecting its responsibilities for fleet scheduling, manning and vessel deployment the Operations Department in 1983 made significant gains in improving the overall efficiency of the fleet through the application of a more precise match between ship capacity and the demands of the traffic. As a major tool in that matching process the department has initiated an Operational Analysis System via micro computers and custom-written software. This new traffic analysis system is programmed to analyze every element which can affect conditions including historic traffic volumes by quarter-day, week and month, statutory holidays and major events. As the system is further refined in 1984/85 even the weather will become a factor in the process of forecasting traffic demand enabling administration to precisely weigh anticipated demand against available capacity.

Evidence of the effectiveness of this precision approach can be seen in the reduction by some two thousand sailings during the twelve month fiscal period while carrying virtually the identical volume of traffic to 1982 (21,016 sailings on the three major routes in 1983/84 vs. 23,127 sailings in 1982/83). Fuel consumption – a major cost factor – was also markedly down in 1983 reflecting the reduction in numbers of sailings and improved techniques in fuel monitoring. In all, significant improvement in productivity as the culmination of several years of necessary capital projects and the careful application of the four elements of traffic management – ships, labour, fuel and scheduling.

While B.C. Ferries has always had one of the highest standards in the world in emergency training, 1983 saw some reorganization of that department including the appointment of a new Training Officer and the use of 'simulation techniques' duplicating real emergency conditions. In an example of Federal-Provincial co-operation, B.C. Ferry crews were able to use the facilities of the Department of National Defense Fire Training College in Victoria with its ability to 'stage' a variety of emergencies.

The year also saw the initiation of a new level of sophistication in passenger communications training which will eventually result in all staff who have passenger contact taking a four-day course in positive communications and problem-solving.

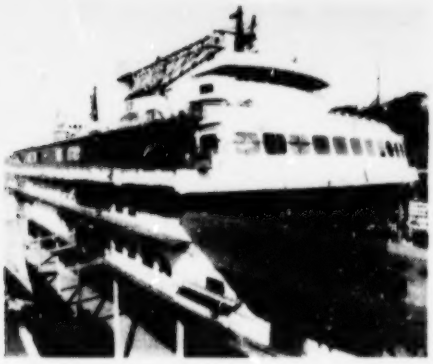
ENGINEERING

In contrast to earlier years which saw heavy emphasis on major construction projects, the Engineering Department in 1983 concentrated its efforts on improvements to the existing fleet in a successful search for improved output and performance at reductions in cost.

Implementation of structural changes and new cost-effective technology brought about significant measurable savings in everything from fuel consumption to turn-around times in port.

In a specific measure aimed at increased loading efficiencies work commenced on the Langdale Terminal to double-deck the auto loading ramps along with improvements to passenger service areas at a cost of $2.5 million. When completed the new ramp structure will enable traffic to load and discharge at a faster rate and will permit full-time use of the upper car deck. Complimentary to the Langdale ramp-work is the recently announced lifting of the M.V. Queen of Alberni. Built in 1976 the former truck ferry entered Burrard Yarrows' shipyard in Victoria during March, 1984 for a $9 million modification in preparation for her new assignment to the Horseshoe Bay-Langdale crossing.

1983 saw the official transfer to B.C. Ferries of all dock engineering and maintenance staff, formerly part of the Ministry of Transportation and Highways. The integration of the department into the Corporation is seen as a major efficiency move offsetting some previous administrative duplication.



RESEARCH AND DEVELOPMENT

As with any Corporation which is dependent upon equipment and technology to meet its commitment to the public, B.C. Ferries must be always searching for innovations and improvements to existing techniques. In addition to meeting the basic requirement of transporting some twelve million passengers each year, administrators and engineers are constantly researching and testing better ways of doing the job. The proven result is greater productivity through new efficiencies.

As part of that ongoing programme several interesting projects were run by the Corporation in 1983:

Computer-activated Fuel Consumption Meters and 'real-time' speed measuring devices were installed and tested under normal operating conditions on several vessels with direct comparisons made on sister ships as the control factor. By using these devices as an additional source of information for the bridge team, initial results indicate significant potential gains in terms of lower fuel consumption through fleet-wide application.

Compressed Natural Gas (CNG). With an eye to the future, in recognition of the constant rise in price of diesel fuel, B.C. Ferries has undertaken studies to determine the potential for CNG as a viable fuel for the next generation of ship's engines. In 1983 several Corporation road vehicles were adapted to natural gas in a controlled experiment. Preliminary results indicate major savings in fuel costs by a factor as great as 50% in addition to less engine wear and lower atmospheric pollution.

In preparation for a planned test on an operating ship, discussions were started in 1983 with Provincial agencies, the Coast Guard and other Federal authorities to establish safety and other standards prior to the next phase of the test programme.

Copolymer paints – Historically the anti-fouling paint which is applied below the waterline of a ship experiences increased surface roughness as the paint deteriorates along with the subsequent growth of marine life. These two negative factors combine to impede the ship's speed thus reducing its overall efficiency as the vessel must burn more fuel to maintain its service speed. Using Self-Polishing Copolymer paints (SPC), B.C. Ferries in 1983 expanded its application of this exciting technology to more ships of the fleet to solve the historic disadvantages of conventional anti-fouling paint and as a result Corporation engineers are already finding significant fuel savings of as much as 12% on the ships wearing the new 'Slippery-paint'.

International co-operation in new systems development is a cornerstone of B.C. Ferries' R & D programme. As one of the largest passenger-marine agencies in the world, the Corporation plays an active and respected role in several world-wide engineering and general marine societies. Through technical co-operation with other marine carriers experience is shared for mutual benefit – with B.C. Ferries in many cases leading the way in technical and operational innovation.

CATERING

The Catering Department of B.C. Ferries would easily qualify as one of the largest caterers in North America providing, as it does, a variety of food services to literally millions of passengers throughout the year – with as many as 1,000 people served in a 90-minute crossing. While still meeting that commitment in 1983 the department continued to place its emphasis on food quality and food presentation.

The zero-growth of ferry traffic when compared to the previous year combined with a lower average expenditure per person placed additional pressure on Catering administration requiring even greater efficiencies while still maintaining the highest standards of service and financial performance.

Recognizing the potential for growth in the newsstands – particularly in sales of tourist souvenirs and special interest books, the department produced a 23% improvement in sales and a 26.4% increase in gross margin.

The year saw the restructuring of the supervisory levels of the department with a new job description: Supervisory Chief Steward, Quality Control, at the Corporation's test kitchen – part of an increased emphasis on consistency of standards in food quality, preparation and in presentation throughout the fleet.

COMMUNICATIONS

Often serving as the 'public voice' of the Corporation, Communications has responsibility for all information programmes, public relations and advertising activities, marketing and the administration of the centralized Reservation Centre (known as INFORES) located in downtown Vancouver.

During 1983/84 the Communications Department put into place a new programme of onboard advertising as a means of further utilizing existing space to generate additional funds. In its first partial year of operation the programme generated approximately $60,000 and in a twelve-month period will realize in excess of $100,000.

Computerized reservations for the regions of the Gulf Islands and the North Coast were completed in 1983 – a programme which began in the previous year and is now offering greater convenience of service to travel agents and the general public.

In continued recognition of the value of tourism to the Province, and as a revenue generator for the Corporation the department enlarged its activities in major travel shows in the key markets of California, Washington and Alberta – working in close co-operation with the Tourism Regions of B.C. With the scheduled services of Vancouver Island and the Northern routes as the main attraction, the department maintained its long-standing off-season tour programme including the development of new package tours.

The bi-monthly staff newsletter, "The Dolphin", continued to receive positive attention as an effective means of internal communication among the nearly 2,000 employees of the Corporation.

LABOUR RELATIONS

The main activity for Labour Relations in 1983 was Contract Negotiations. A collective agreement was concluded on October 30, 1983 and resulted in a three-year contract viewed as a compromise by both parties reflecting these times of restraint. The agreement provides new levels of security for staff, the Union nomination of a Director to the Board and the extension of the basic working day from 7.5 hours to one of 8 hours for certain classifications within the bargaining unit.

This latter move has led to greater flexibility in manning and allowed improvements to scheduling.

It was the second consecutive time that a collective agreement was negotiated without time loss. As well, the Corporation did not suffer time loss as a result of third-party picketing.

Good relations continued with the Union last year as both parties dealt with a number of complex issues arising out of the need for restraint.

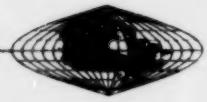
PERSONNEL

The personnel aspect of the Corporation has undergone significant changes during the last fiscal year. The Corporation absorbed 66 regular employees from the Department of Transportation and Highways as an operational efficiency move since this workforce in the past has been exclusively assigned to B.C. Ferries.

During 1983 the success of the Corporation's actions to reduce the number of regular employees through attrition represented a reduction of 4.7% from 1982. Increased cost awareness has led to more effective monitoring of WCB claims and the challenging of their costs. In addition, extra effort has gone into reducing sick leave usage and special leave claims, producing lower replacement costs through the use of fewer casuals. Casual employees worked in excess of 13,000 man-days less in 1983-84 than in 1982-83.

The Corporation also successfully managed to reduce the banked overtime liability, while at the same time used the banked time to distribute manpower demand. This, in effect, spread the consequences of a highly seasonal operation and permitted the retention of experienced personnel. Careful manpower planning has made it possible to get through the year without additional paid educational leave to meet the requirement of having employees with particular certification.

THORNE RIDDELL
Chartered Accountants



AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Ferry Corporation as at March 31, 1984 and the statements of income, accumulated income reinvested in corporation assets (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Victoria, Canada
May 18, 1984

Balance Sheet for the Year

ASSETS	1984	1983
	(expressed in thousands)	
Current assets		
Cash (Note 1)	$ 3,861	$ 3,699
Accounts receivable (Note 2)	505	609
Inventories (Note 3)	9,252	8,510
Prepayments and deposits	583	2,125
	14,201	14,943
Reserved Funds (Note 4)	—	5,680
Fixed Assets (Note 5)		
Ships, berths, buildings, equipment and land	465,418	459,006
Less accumulated depreciation	173,645	144,259
	291,773	314,747
	$305,974	$335,370

APPROVED BY THE BOARD

"A.L. MICHAUD"
Director

"W.A. DUNCAN"
Director

Ending March 31

LIABILITIES	1984	1983
	(expressed in thousands)	
Current Liabilities		
Notes payable	$ —	$ 30,000
Accounts payable and accrued liabilities	19,134	20,805
Deferred revenue	1,544	1,644
	20,678	52,449
Long-term debt (Note 6)	35,908	20,428
Accrued sick leave liability (Note 7)	5,844	5,680
	62,430	78,557
SHAREHOLDER'S EQUITY		
Share capital		
Authorized 1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued 58,497 shares	5,850	5,850
Allotted and to be issued 10,015 shares (Note 8)	1,001	—
Contributed surplus (Note 9)	250,401	249,674
Accumulated income reinvested in corporation assets (deficit)	(13,708)	1,289
	243,544	256,813
Commitments (Note 13)		
	$305,974	$335,370

Statement of Income

YEAR ENDED MARCH 31

	1984	1983
	(expressed in thousands)	
Operating revenues		
Tolls	$ 94,593	$ 86,660
Catering	23,737	22,707
Other income (note 10)	1,949	1,322
	120,279	110,689
Less cost of food and goods sold	9,174	8,889
	111,105	101,800
Operating expenses		
Salaries, wages and benefits	83,449	78,386
Fuel and lubricants	25,352	28,315
Materials, operating supplies and services	10,338	10,853
Contracted replacements, repairs and maintenance	6,950	15,435
Marketing, general and administrative	3,283	3,398
Charter fees	2,946	2,626
	132,318	139,013
Operating loss before subsidy	21,213	37,213
Province of British Columbia subsidy (note 11)	43,000	43,000
Income from operations	21,787	5,787
Interest expense (note 12)	6,198	5,073
INCOME BEFORE DEPRECIATION AND EXTRAORDINARY ITEM	15,589	714
Depreciation	30,586	34,724
Extraordinary item		
Provision for uncollectibility of an accounts receivable from British Columbia Steamship Company (1975) Ltd.	—	1,951
	30,586	36,675
LOSS AFTER DEPRECIATION AND EXTRAORDINARY ITEM	$ 14,997	$ 35,961

Statement of Accumulated Income Reinvested in Corporation Assets (Deficit)

YEAR ENDED MARCH 31

	1984	1983
	(expressed in thousands)	
Accumulated income reinvested in corporation assets at beginning of year	$ 1,289	$ 36,543
Loss for the year after depreciation and extraordinary item	(14,997)	(35,961)
Prior years' self-insurance fund provision	—	1,153
Payment to Province of British Columbia of excess of sinking fund assets over related long-term debt obligations	—	(446)
ACCUMULATED INCOME REINVESTED IN CORPORATION ASSETS (DEFICIT) AT END OF YEAR	$(13,708)	$ 1,289

Statement of Changes in Financial Position

YEAR ENDED MARCH 31

	1984	1983
	(expressed in thousands)	
Working capital derived from:		
Operations		
Net income (loss) for the year after depreciation and extraordinary item	$(14,997)	$(35,961)
Charges not affecting working capital –		
Depreciation	30,586	34,724
Amortization of promissory note discount and issue costs	741	639
Loss on retirement of fixed assets	248	483
Increase in accrued sick leave liability	164	1,388
	16,742	1,273
Proceeds from promissory note issue	14,739	—
Materials received from the Province of British Columbia	1,001	—
Transfer of reserved funds to working capital	5,680	—
Proceeds on sale of fixed assets	9	200
Decrease in self-insurance fund assets	—	1,153
	38,171	2,626
Working capital applied to:		
Fixed asset additions	7,142	26,804
Increase in accrued sick leave liability fund assets	—	1,387
Payments to Province from sinking fund	—	446
	7,142	28,637
Working capital deficiency decrease (increase)	31,029	(26,011)
Working capital deficiency at beginning of year	37,506	11,495
Working capital deficiency at end of year	$ 6,477	$ 37,506
Working capital deficiency comprises:		
Current assets	$ 14,201	$ 14,943
Current liabilities	20,678	52,449
	$ 6,477	$ 37,506

Statement of Accounting Policies

YEAR ENDED MARCH 31, 1984

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

INVENTORIES –

Inventories are valued at the lower of cost and current replacement cost.

LONG-TERM DISABILITY –

Amounts paid to the Superannuation Branch of the Public Service Commission under the Long-Term Disability Plan are accounted for by the Corporation on the basis of accruing in the financial statements that portion estimated to be payable to employees until retirement for individual disability with the balance of the amounts paid being included in prepaid expenses.

FIXED ASSETS –

Acquired from the Province of British Columbia effective January 1, 1977:

(a) Ships

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of $1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 on the basis of construction records for labour and materials valued at 1977 cost exclusive of any federal ship building subsidies which may have been available during the extended period of years during which the individual ships were built and during which such subsidies fluctuated substantially. The estimated depreciated replacement value of the ships at January 1, 1977 is not intended to reflect fair market value of the fleet nor can it be considered to approximate fair market value because of the specialized nature and limited saleability of the ships themselves.

In addition, three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of $1 each, with the Corporation being responsible for all operating, repair, and maintenance costs. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in accordance with the terms of its charter agreement. In the event that such option is exercised, clear title to the ships will be transferred to the Corporation. As a result of these transactions and agreements, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are similarly stated at their estimated depreciated replacement value as at January 1, 1977.

(b) Berths, buildings and equipment

Berths, buildings and equipment also comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of $1.

These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Additions and disposals subsequent to January 1, 1977:

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

On October 1, 1983 the remaining buildings and equipment at Deas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of $1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1983 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5 - 10 years
Buildings and equipment	4 - 25 years

Effective April 1, 1983 the estimated useful lives of ships that have been modified or re-engined is 25 years from date of modification.

AMORTIZATION OF PROMISSORY NOTE DISCOUNT AND ISSUE COSTS –

Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs are amortized on a straight-line basis over the term of the debt.

PROVISION FOR ANNUAL REFIT COSTS –

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

Notes to Financial Statements

MARCH 31

1. CASH AND SHORT-TERM INVESTMENTS

Funds, other than those required for immediate settlement of liabilities, are invested in short-term commercial securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

2. ACCOUNTS RECEIVABLE

Provision has been made for the uncollectibility of a 1980 accounts receivable of $1,950,619 due from the British Columbia Steamship Company (1975) Ltd. for the lease and modifications to the Lessee's specifications of the M.V. "Queen of Prince Rupert".

3. INVENTORIES

	1984	1983
	(expressed in thousands)	
Spare components, parts and supplies	$6,832	$6,026
Fuel and lubricants	1,980	2,031
Goods for resale and catering supplies	440	453
	$9,252	$8,510

4. RESERVED FUNDS

During the year the Corporation transferred funds reserved for accrued sick leave liability to general operating funds.

5. FIXED ASSETS

			1984	1983
	(expressed in thousands)			
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	$283,258	$ 90,677	$192,581	$198,745
Ships under capital lease	63,051	19,280	43,771	46,465
Berths, buildings and equipment	114,654	63,688	50,966	58,806
Land	723	—	723	723
Construction in progress	3,732	—	3,732	10,008
	$465,418	$173,645	$291,773	$314,747

6. LONG-TERM DEBT

	1984	1983
	(expressed in thousands)	
Long-term debt issued by the Corporation		
8.95% Promissory notes (effective rate of 15.75%), are repayable in five equal annual instalments of $5.7 million commencing March 5, 1988	$28,500	$28,500
Less unamortized discount and issue costs	7,332	8,072
	21,168	20,428
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of $322,492 commencing September 9, 1984	14,758	—
Less unamortized issue costs	18	—
	14,740	—
	$35,908	$20,428

Principal and sinking fund payments due in each of the next five years:

1985	1986	1987	1988	1989
$322,492	$322,492	$322,492	$6,022,492	$6,022,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the promissory notes.

7. ACCRUED SICK LEAVE LIABILITY

On September 1, 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement and on retirement any balance remaining is payable in cash at 50% of accredited time. The liability as at March 31, 1982 based upon a recent actuarial evaluation by William M. Mercer Limited established the present lump sum value of cash payouts on retirement to all employees at $5,144,000 which, with interest will accumulate an amount required to meet those obligations.

8. SHARE CAPITAL

On October 1, 1983 the Corporation acquired certain materials and supplies valued at $1,001,485 from the Ministry of Transportation and Highways and is obligated to issue 10,015 shares.

9. CONTRIBUTED SURPLUS

	1984	1983
	(expressed in thousands)	
Excess of estimated depreciated replacement value over assigned value of $1 of assets acquired from the Province of British Columbia		
– Ships, berths, buildings and equipment effective January 1, 1977	$249,674	$249,674
– Buildings and equipment effective October 1, 1983	727	—
	$250,401	$249,674

Notes to Financial Statements Continued

10. OTHER INCOME

	1984	1983
	(expressed in thousands)	
Parking and ancilliary traffic revenue	$ 837	$ 734
Interest earned on funds in bank and short-term investments	1,112	288
Grant of right-of-way to B.C. Hydro	—	300
	$1,949	$1,322

11. PROVINCIAL SUBSIDY AND BENEFITS

The Corporation receives a subsidy from the Province of British Columbia which is determined annually.

Included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of $1 each. The annual cost of these charters to the Province is $4,819,800. In addition the Corporation utilizes Crown land for terminals and highway access without rental or property taxes. The value of these benefits is indeterminable. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

The Corporation utilizes Ministries and Agencies of the Provincial Government for negotiation and purchase of fuel, materials, communications and until October 1, 1983 terminal maintenance and construction services. The aggregate of these transactions is $45.3 million (1983 - $54.3 million).

12. INTEREST EXPENSE

	1984	1983
	(expressed in thousands)	
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:		
- long term debt	$4,292	$3,209
- short term borrowings	1,906	1,864
	$6,198	$5,073

13. COMMITMENTS

The Corporation is contractually committed to complete the double-decking of the M.V. "Queen of Alberni" and to the double-decking of and improvements to Langdale terminal. The total estimated cost of these capital projects is $10.8 million and as at March 31, 1984 the estimated remaining cost to complete these commitments is $8.1 million.

Not included in the accounts is a lease commitment of $5.4 million for the M.V. "Quinsam" which is fully recoverable through a non-cancellable sub-lease with the Ministry of Transportation and Highways for British Columbia.

Statistical Review

YEAR ENDED MARCH 31

	1984	1983	1982	1981	1980	1979
Financial				(expressed in thousands)		
Operating Revenue - Gross	$120,279	$110,689	$112,199	$ 99,552	$ 82,867	$ 72,520
Operating Expense	132,318	139,013	133,856	104,956	88,695	80,933
Operating Loss before Subsidy	21,213	37,213	31,221	14,261	13,667	14,853
Subsidy	43,000	43,000	58,891	53,106	49,447	46,564
Cash Flow from Operations	16,742	1,273	28,839	40,611	37,606	32,727
Depreciation and Amortization	30,586	34,724	26,087	22,148	20,271	19,354
Interest on Debt	6,198	5,073	893	779	880	965
Working Capital (Deficiency)	(6,477)	(37,506)	(11,495)	15,612	21,878	24,792
Additions to Property	7,142	26,804	74,376	44,919	39,369	26,032
Total Assets	305,974	335,370	357,817	334,696	312,048	296,335
Long-term Debt	35,908	20,428	31,716	13,764	15,513	17,178
Operating						
Traffic						
- Passengers	12,398	12,275	12,764	12,513	11,423	10,399
- Vehicles	4,483	4,463	4,713	4,626	4,161	3,759
Miles						
- Passengers	283,745	278,975	339,395	334,078	314,844	272,693
- Vehicles	97,569	97,020	118,633	116,318	106,735	93,829
Utilization						
- Passengers	25%	27.4%	26.4%	28.1%	25.5%	24.6%
- Vehicles	56%	49.8%	48.2%	59.8%	57.3%	55.4%

Corporate Information

HEAD OFFICE

818 Broughton Street,
Victoria, B.C.,
V8W 1E4.

INFORMATION/RESERVATION CENTRE

1045 Howe Street,
Vancouver, B.C.,
V6Z 2A9.

AUDITORS

Thorne Riddell,
707 Fort Street,
Victoria, B.C.,
V8W 3G3.

CORPORATE COUNSEL

Ladner Downs,
2100 Pacific Centre South,
700 W. Georgia Street,
Vancouver, B.C.,
V7Y 1A8.

BANKERS

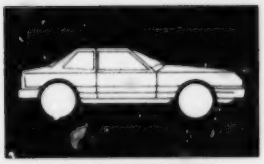
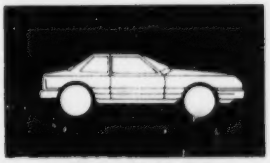
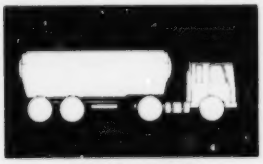
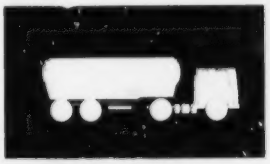
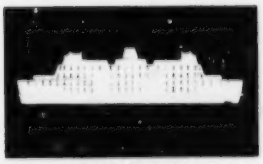
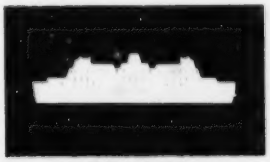
Bank of Nova Scotia,
Victoria, B.C.

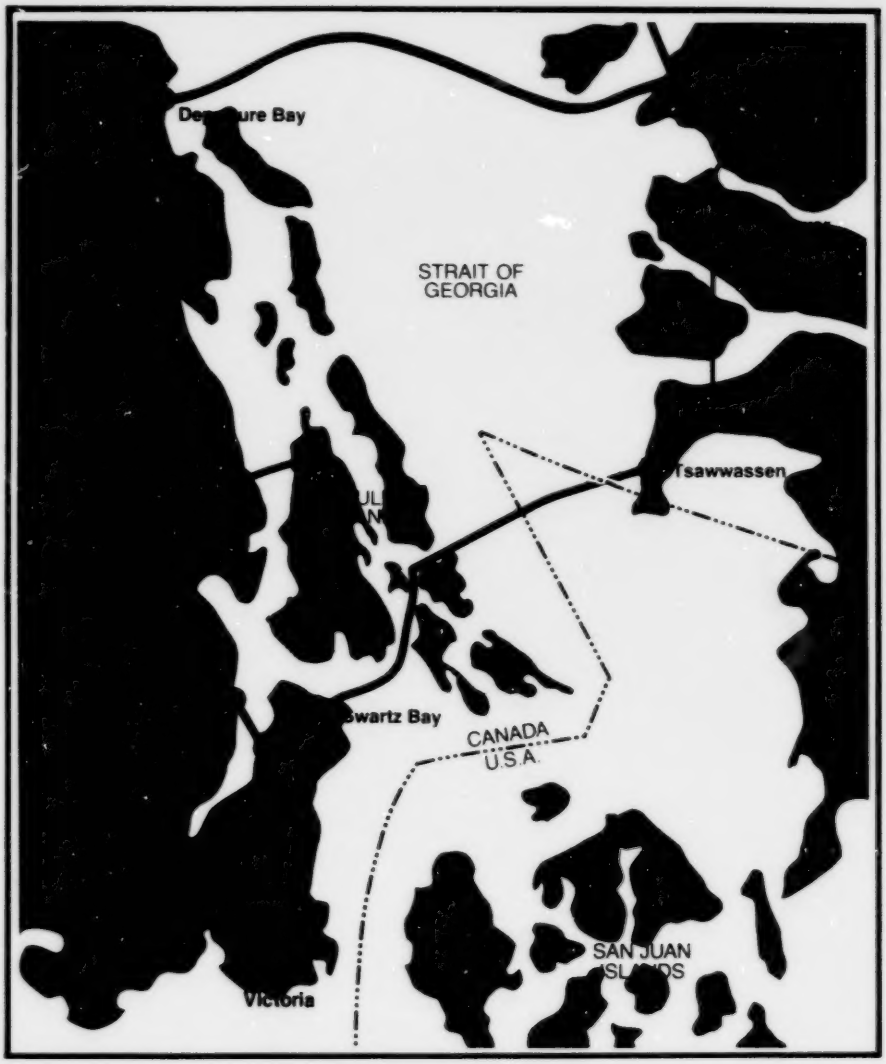
Canadian Imperial Bank of Commerce,
Victoria, B.C.

Traffic Carried

". . . The effectiveness of this approach can be seen in the reduction by some 2,000 sailings . . . while carrying virtually the identical volume of traffic . . . fuel consumption was also markedly down in 1983."

Excerpt from General Manager's Report – Operations

83/84	82/83
Passengers	
12,397,905	12,275,466
Passenger Vehicles	
	
4,265,298	4,251,135
Commercial Vehicles	
	
217,409	211,596
Sailings	
	
21,016	23,127
Fuel Consumption (Litres)	
78,743,505	86,126,486



Vancouver Island

Geographically Vancouver Island ranks among the largest of the populated islands of the world. Its half million permanent residents also represent the most prolific travellers anywhere as evidenced by the nearly 12 million passengers and 4.4 million vehicles carried on the two Mainland-Vancouver Island routes in 1983. By comparison, in 1960 B.C. Ferries' first year of operation, the system carried slightly over 3/4 of a million passengers – a graphic illustration of the expansion of the island in both population and economic importance.

In those initial years, service to Vancouver Island was carried out by such ships as the 100-car ferries, the M.V. Sidney and the M.V. Tsawwassen. Today, technology, traffic growth and the need for greater efficiencies in labour and fuel have superbly come together in the present generation of ferries – the "C" class ships with their massive 360 vehicle capacity. By the summer of 1984 all four ships on Route #2 (Horseshoe Bay-Departure Bay) will be "C" class vessels, the culmination of years of operational planning aimed at achieving maximum productivity.

This commitment to optimum efficiency through the precise matching of ship capacity to the traffic demand has led in 1983 to the elimination of the operational shortfall on the Vancouver Island routes for the first time in over a decade.

The year 1984/1985 will see that same level of dedication concentrated on the three remaining geographic regions of the Sunshine Coast, the Gulf Islands and the North Coast which, contrary to the relatively healthful Vancouver Island routes, between them accounted for over 30 million dollars in deficit before depreciation in 1983.

The Sunshine Coast

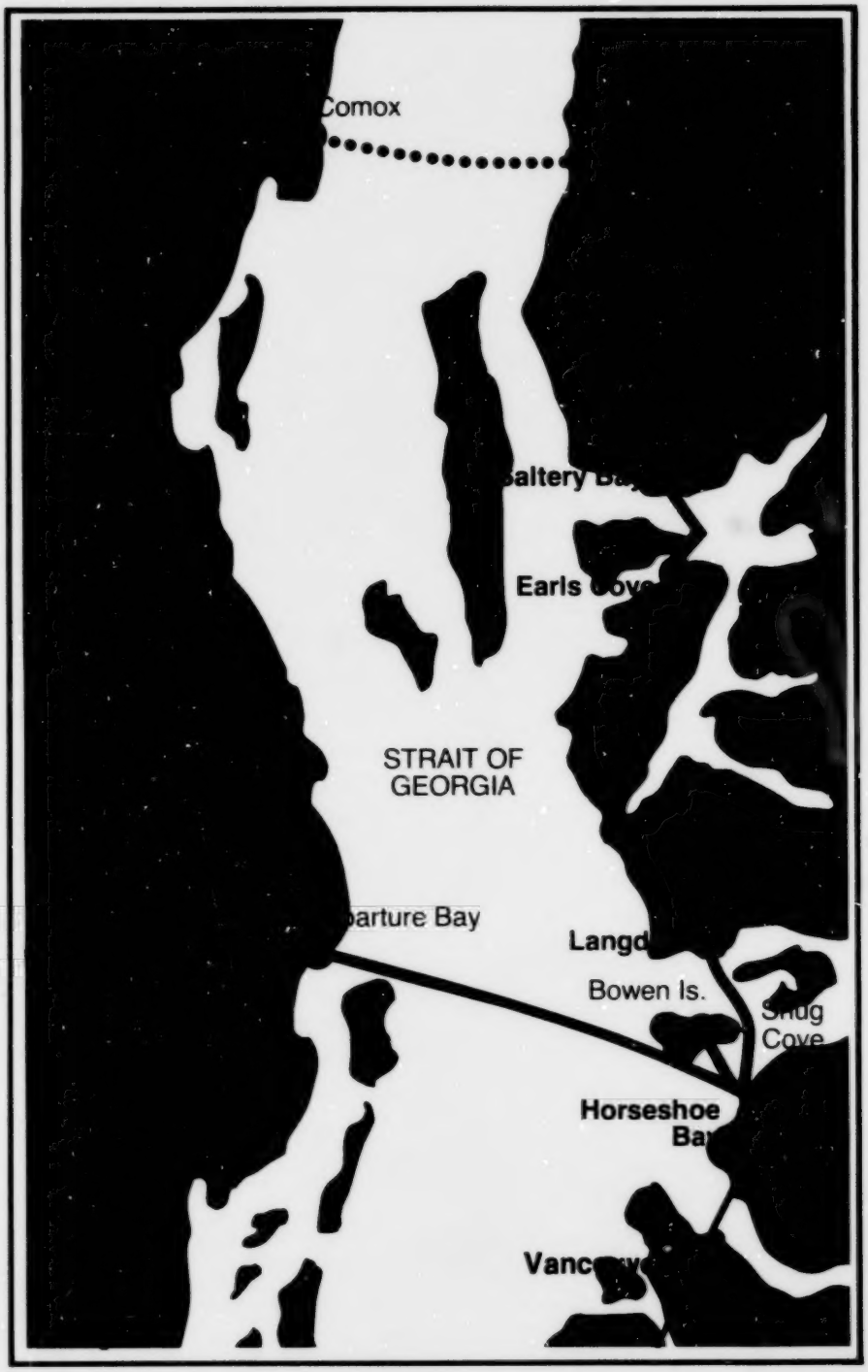
Encompassing several hundred bays, reaches and headlands along with the magnificent Howe Sound and the 64 kilometre-long Jervis Inlet, the Sunshine Coast stretches 163 kilometres from Langdale in the south to the tiny sport-fishing hamlet of Lund 23 kilometres north of Powell River. Historically the region has been served by the ferry services of Union Steamships, then Black Ball Ferries and ultimately (since 1961) B.C. Ferries.

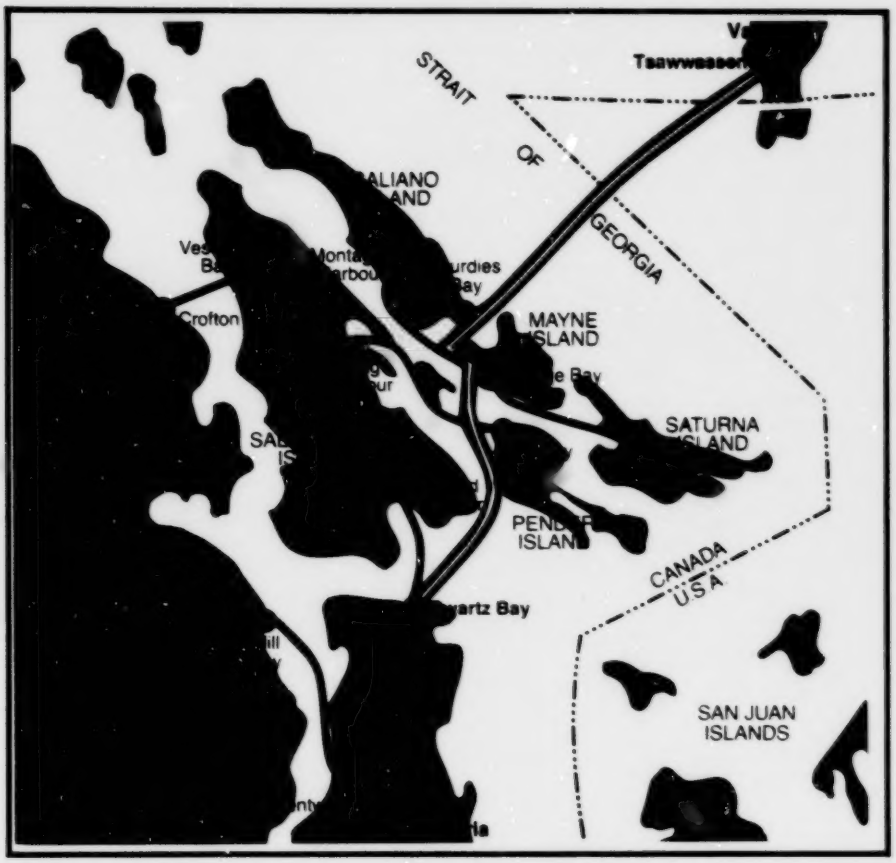
Today the Corporation's commitment to the region is carried out with two ships. In the southern end crossing Howe Sound, the 360 vehicle M.V. Queen of Coquitlam is geared to handle the peaks of traffic which occur daily in the 'rush hours', on the weekends and seasonally in the summer months.

In June of 1984, the Coquitlam will be replaced by the M.V. Queen of Alberni following an 8.6 million dollar conversion. To ensure the maximum utilization of this superb new vessel a further 2.5 million dollars will be spent at Langdale to double-deck the existing terminal.

90 kilometres to the north the M.V. Powell River Queen makes the crossing 7 times a day connecting the highway at Earl's Cove to the northern shore of Jervis Inlet at Saltery Bay.

In 1983/84, traffic on the Sunshine Coast continued the decline which had begun with the onset of the recession. There are encouraging signs indicating, if not recovery, at least a levelling-off of the downturn. The economic problems of the region have further compounded the historic deficits experienced in providing ferry operations to the area. In all, the deficit amounted to 7.7 million dollars before depreciation and 10.9 millions after depreciation.





The Gulf Islands

Five major islands, hundreds of minor ones and literally thousands of rocks and islets comprise the islands of the Gulf of Georgia – the Gulf Islands. Traditionally the term has been used to describe only those islands in the southern end of the Gulf. They are Saltspring (once known as Admiralty Island), Mayne, North and South Pender (as an entity), Galiano and Saturna. Collectively they boast a combined permanent population of some 8,000 people.

Historically the region has been served by a succession of ferry operators going back to the Canadian Pacific Navigation Company in the 1920's. In later years the service was adopted by the locally-owned and operated Gulf Islands Ferry Company. In 1961 the responsibility for inter-island ferry services was acquired by B.C. Ferries which – over the intervening 24 years – has built the system into one of the best serviced regions in the world when one considers the small population.

In 1983 no less than five ships were committed to the region – between them they carried Gulf Islanders and their visitors to seven inter-island ports in addition to Swartz Bay, Tsawwassen and Crofton. An interesting example of the high level of service is Saltspring Island which enjoys three vessels calling at three different ports making no less than 44 landings and departures a day in the winter months with an even greater frequency in the summer.

In spite of some new efficiencies in labour and scheduling along with modest attempts to end inequitable fare structures, the Corporation's commitment to the islands continues to be extremely costly as evidenced by the 1983/84 deficit of 11.1 millions before depreciation and 14.6 millions after depreciation.

The North Coast

British Columbia Ferries' use of the term 'North Coast' encompasses the 506 kilometres of British Columbia coastline stretching from Port Hardy in the south to Prince Rupert in the north and across the Hecate Strait 170 kilometres westward to the Queen Charlotte Islands. The route also involves an en-route stop at the Denny Island community of Bella Bella.

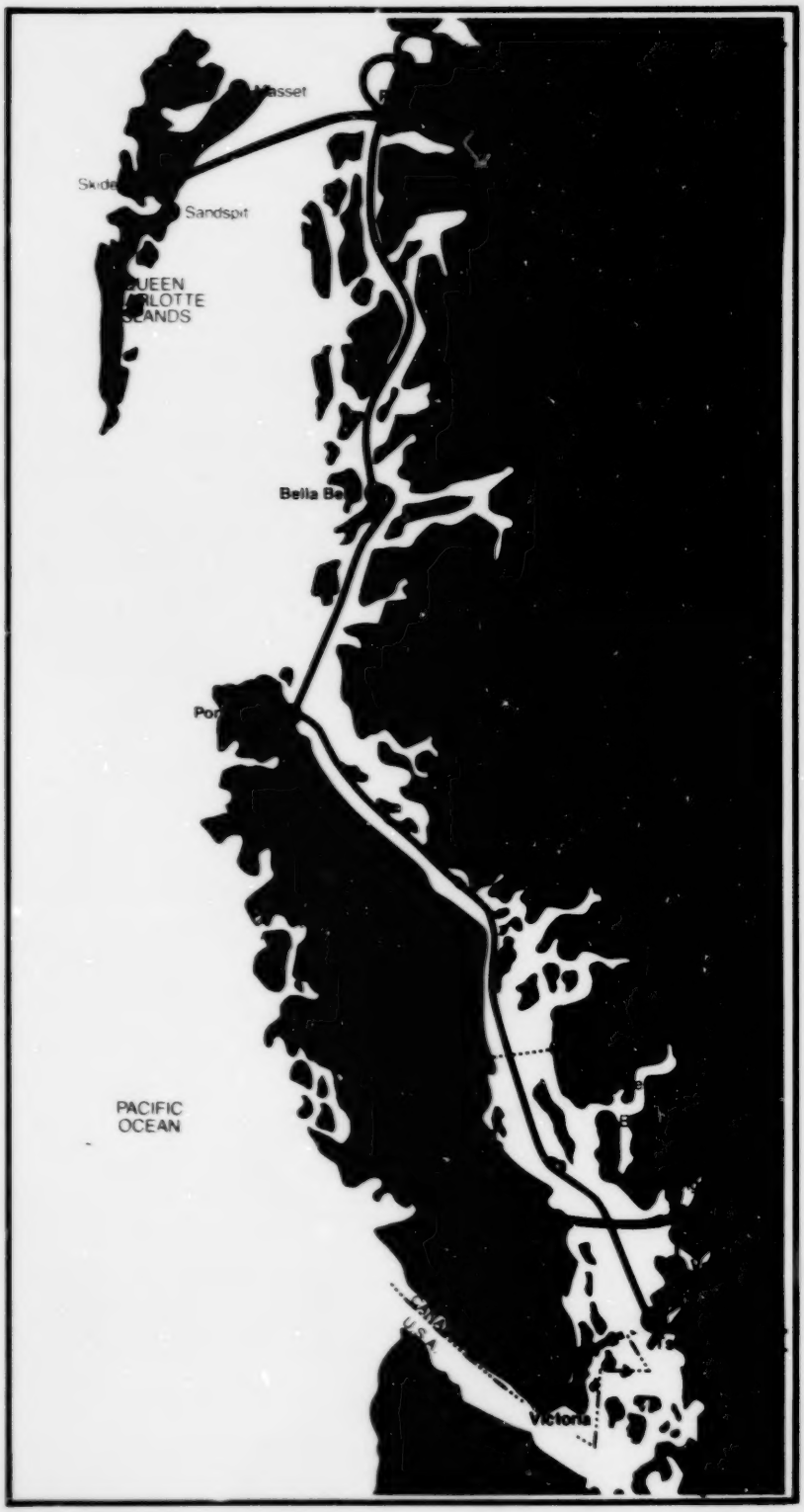
From Port Hardy to Prince Rupert the voyage covers between 15 - 18 hours of some of the most dramatic and beautiful coastline in North America. For British Columbians and their tourist visitors, the Inside Passage represents the most colourful and interesting route in the system.

To the people of the Central and North Coast, however, the M.V. Queen of the North and the M.V. Queen of Prince Rupert represent their own 'marine highway' – a link with the seat of Government and the centre of commerce in the Province's southwest.

Operationally the North Coast service is a classical illustration of high labour, fuel and equipment costs which are dictated by the length of the route and the restrictions of open seas encountered in such crossings as Queen Charlotte Sound. Unfortunately the relatively low resident populations and the restrictions imposed by limited stateroom space on board results in revenues which are insufficient to offset the exceptionally high operational costs.

In 1983 the Board of Directors initiated a major re-examination of the North Coast operation in an attempt to find new, more efficient ways of meeting the Corporate responsibility.

Illustrating the high cost of servicing the region, the Central and North Coast operation in 1983/84 resulted in a deficit of 10.4 millions before depreciation and 14.1 millions after depreciation.



Statistics

YEAR END	PASSENGERS	VEHICLES
March 31, 1962	2,040,000	697,000
March 31, 1963	2,665,000	895,000
March 31, 1964	3,180,000	1,034,000
March 31, 1965	3,300,000	1,185,000
March 31, 1966	4,000,000	1,333,000
March 31, 1967	4,477,000	1,516,000
March 31, 1968	4,361,000	1,530,000
March 31, 1969	4,774,000	1,733,000
March 31, 1970	5,671,000	2,102,000
March 31, 1971	5,963,511	2,228,412
March 31, 1972	6,771,837	2,552,505
March 31, 1973	7,629,385	2,824,964
March 31, 1974	8,538,297	3,169,582
March 31, 1975	9,612,501	3,558,234
March 31, 1976	9,912,738	3,760,099
March 31, 1977	8,383,502	3,044,167
March 31, 1978	9,018,976	3,258,017
March 31, 1979	10,399,203	3,758,628
March 31, 1980	11,423,405	4,161,302
March 31, 1981	12,512,898	4,625,917
March 31, 1982	12,763,664	4,712,951
March 31, 1983	12,275,466	4,462,731
March 31, 1984	12,397,905	4,482,707

Routes

No.	Between
1	Tsawwassen - Swartz Bay
2	Horseshoe Bay - Departure Bay
3	Horseshoe Bay - Langdale
4	Swartz Bay - Fulford Harbour, Saltspring Island
5	Swartz Bay - Gulf Islands
6	Vesuvius Bay, Saltspring Island - Crofton
7	Saltery Bay - Earls Cove
8	Horseshoe Bay - Snug Cove, Bowen Island
9	Tsawwassen - Gulf Islands
10	Tsawwassen - Port Hardy - Bella Bella - Ocean Falls** - Prince Rupert
11	Prince Rupert - Skidegate, Queen Charlotte Islands
12	Mill Bay - Brentwood Bay
13	Langdale - Gambier Islands - Keats Island
14	Prince Rupert - Masset, Queen Charlotte Islands *
15	Prince Rupert - Kincolith *
16	Prince Rupert - Port Simpson *
51	Tofino - Ahousat - Hot Springs Cove *
53	Gold River - Tahsis - Zeballos - Kyuquot *
54	Ocean Falls *

** Service terminated March 31, 1983

* Service provided by independent operators under charter agreements

Ships

	Year Built	Overall Length	Gross Tons	Break Hp	Capacity Autos	Capacity Psgrs (Licensed)
JUMBO SHIPS						
Alberni, Queen of	1976	457	5,279	11,860	145	450
Cowichan, Queen of	1976	457	6,551	11,860	362	1,466
Coquitlam, Queen of	1976	457	6,551	11,860	362	1,466
Oak Bay, Queen of	1981	457	6,969	11,860	362	1,465
Surrey, Queen of	1981	457	6,969	11,860	362	1,465
LIFTED SHIPS						
Esquimalt, Queen of	1963	426	5,430	8,000	376	1,360
Saanich, Queen of	1963	426	5,430	8,000	376	1,360
Vancouver, Queen of	1962	426	5,430	9,000	258	1,360
Victoria, Queen of	1962	426	5,430	9,000	258	1,360
STRETCHED SHIPS						
Burnaby, Queen of	1965	426	4,903	6,000	192	987
Nanaimo, Queen of	1964	426	4,939	6,000	192	987
New Westminster, Qn. of	1964	426	4,904	6,000	192	987
NORTHERN SHIPS						
Prince Rupert, Queen of	1966	332	5,864	8,560	80	458
North, Queen of the	1950	410	8,807	15,600	157	482
MAJOR SHIPS						
Sidney, Queen of	1960	336	3,128	6,000	138	989
Tsawwassen, Queen of	1960	336	3,127	6,000	138	989
MINOR SHIPS						
Bowen Queen	1965	279	1,476	3,560	70	390
Mayne Queen	1965	279	1,476	3,560	70	340
Powell River Queen	1965	279	1,486	3,560	70	400
Howe Sound Queen	1964	241	795	1,156	70	330
Islands, Queen of the	1963	236	1,717	4,000	40	483
Mill Bay	1956	120	175	152	16	168
Saltspring Queen	1949	145	276	480	30	187
Vesuvius Queen	1950	150	277	480	32	177
Dogwood Princess II	1979	42	21	200	–	38

POOR

QUALITY

ORIGINAL